The Squeeze Begins

Tuesday, July 10, 2001; Page A20

THE IMPROVIDENT tax cut that Congress passed in May at the president's request is producing a budget squeeze even faster than expected. Critics said that within a few years the government would be forced to dip into Medicare reserves to pay for the cut. But it now appears that that was a sunny forecast. The weaker economy means government revenues will be lower than anticipated. The latest estimate is that the government likely will have to dip into the Medicare trust fund this year, and that next year it will be tapping the Social Security trust fund as well.

Administration officials respond that the Medicare trust fund is nothing more than an accounting device, and a misleading one as well. Therefore it doesn't matter if they tap it. They add that even if they do tap it and -- who knows? -- take a little out of the Social Security trust fund as well in the next few years, the overall budget surplus will be large and the government will continue to pay down debt. Finally, the president's spokesman said yesterday that he -- Mr. Bush -- sees signs of an economic recovery not far ahead, thanks in part to the tax cut, of course. So not to worry, is the implication; revenues will rebound and the budget fable will remain intact.

But the fable is just that -- a fable. The squeeze is the reality, and the squeeze already in evidence offers only the barest hint of what lies ahead if this irresponsible tax cut remains on the books. The long-term fiscal outlook is bleak, a serious matter that ought not be the subject of a game of political gotcha in either direction.

The tax cut, if ever it becomes fully effective, will cost far more than Congress pretended in passing it. The pretense was that it would cost no more than $1.35 trillion over the first 10 years. To stay within that figure the sponsors created a mirage of alternating effective dates -- backloading some provisions so as not to take effect until toward the end of the estimating period, meanwhile pretending that others would "sunset" before the period was over. In the second 10 years, when all would presumably be fully in effect, the cost would be in excess of $4 trillion.

Having understated the cost, the sponsors then greatly overstated the supposed surplus that would be available to pay it. The main device was to assume that discretionary spending, the appropriated funds for everything but benefits such as Social Security and Medicare plus interest on the debt, would be reduced in real terms by perhaps a sixth by future Congresses. That isn't going to happen. Neither party would vote for it, nor should. The long-term budget makes insufficient provision for the defense buildup that the president and many in Congress nonetheless cheerfully advocate. It makes insufficient provision as well for the Medicare drug benefit to which, in different degrees, both parties are committed, and no provision at all for strengthening the financial condition of either Social Security or Medicare.

It is, in other words, a fraud. That is the basis on which the tax cut was enacted. The current surplus will not last. The country is headed back to borrow-and-spend. The tax cut hastens the day. The Medicare trust fund is indeed an accounting convention. The tapping of it is nonetheless an omen. Funds that in not very many years will be needed to cover the government's costs, including the cost of Medicare -- and that could be saved in the meantime by paying down debt -- have been used instead to give a tax cut mainly to the rich. If Medicare helps to pay for the tax cut, who then pays for Medicare?